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MICHIGAN CREDIT UNION LEAGUE & AFFILIATES

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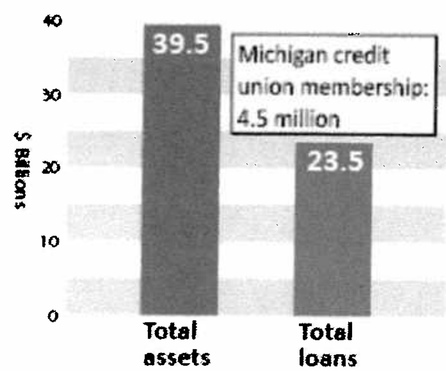
House Banking and Financial Services Committee
Wednesday, January 26, 2011
House Office Building Room 326

Introduction
Good morning and thank you Chairman Knollenberg and members of the committee for the opportunity to speak about Michigan's credit unions, and how they are helping our economy and Michigan households at a critical time during extraordinary economic circumstances. I will share some thoughts regarding specific federal and state issues that are limiting credit unions' ability to fuel the economy, create jobs and help Michigan's citizens survive and prosper. I will weave the federal issues into the discussion because all Michigan depository institutions, including credit unions are federally insured and it is federal legislation and regulation that dramatically impacts credit unions' ability to lend during tough economic times. The legislature's help in advising our federal regulators and U.S. Congress would be very beneficial. I will of course also touch on issues more directly under the control of state government.

I will conclude with some fairly general themes that may well require more deliberate and extensive analysis before the legislature could address them. These themes are largely related to the creation of consumer incentives for financial education and responsible financial behavior. The use of tax policies and other creative approaches might be extremely helpful as the public and private sector work toward encouraging increased financial responsibility, which truly is more important than anything that government or financial institutions might do in the way of policies and services.

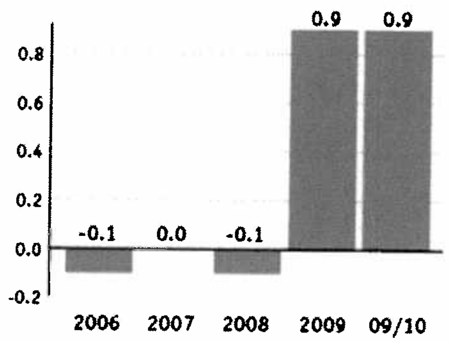
Background: What are Credit Unions and How Are They Helping Michigan Consumers
Michigan has 330 credit unions serving more than 4.5 million members. This 44 percent penetration rate is by far the highest among any of the ten most populous states in the country. Michigan credit union members love their credit unions. During the current economic downturn, credit unions and their conservative lending practices have become a safe haven for many consumers who became frustrated or unsatisfied with their previous lender. In fact, credit unions experienced membership growth with over 50,000 net new members in the first three quarters of 2010.

Michigan Credit Union Total Assets, Total Loans

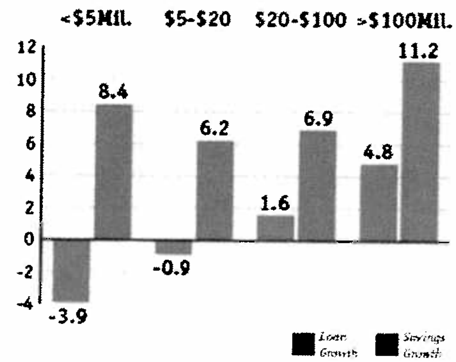


The credit union difference is their structure. As tax-exempt, not-for-profit, member-owned financial cooperatives, credit unions often offer better rates and lower fees and arguably more consistent high levels of service to their members. They achieve all of this without posing any real threat to the banking sector. Despite small gains in market share nationwide, credit union total assets comprise less than 2% of the $60 trillion dollar financial services sector. Credit unions control their risks through responsible lending that is more diversified among smaller consumer loan balances. However, most credit unions provide

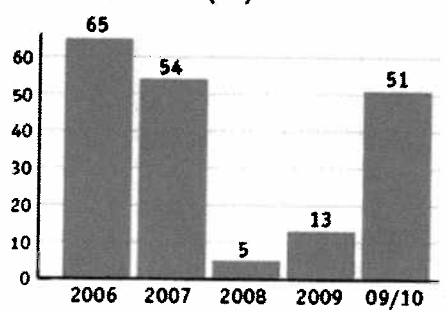
Membership Trend Growth (%)



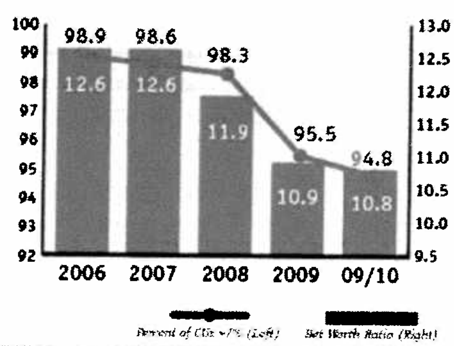
Loan, Savings Growth by Asset Size (%)



Return on Assets (BP)



Net Worth Profile (%)



By the Numbers as of September 2010

23.5	54,000	22.9%
Total loans by Michigan credit unions in billions of dollars	New Michigan credit union members since begining of 2010	MBL growth rate

Based on preliminary data

Key Performance Measures

Through 9/2010

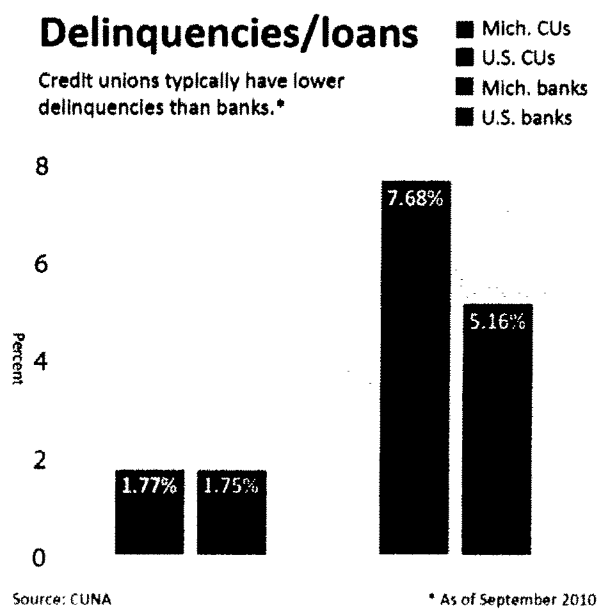
	MI CUs	US CUs	MI Banks	US Banks
12 Month Growth Rates				
Total Assets	5.6	3.8	-5.7	1.0
Total Savings	7.3	5.6	-2.2	1.9
Total Loans	0.7	-1.2	-8.0	-0.3
Real Estate Loans	0.2	0.1	-8.6	-5.0
Commercial Loans	22.9	6.9	-3.1	-7.8
Consumer Credit Card	4.2	4.2	9.3	74.0
Capital Adequacy				
Net Worth/Assets	10.8	10.0	9.2	11.2
Asset Quality				
Delinquencies/Loans	1.77	1.75	7.68	5.16
Net Chargeoffs/Avg. Loans	1.19	1.14	2.31	2.78

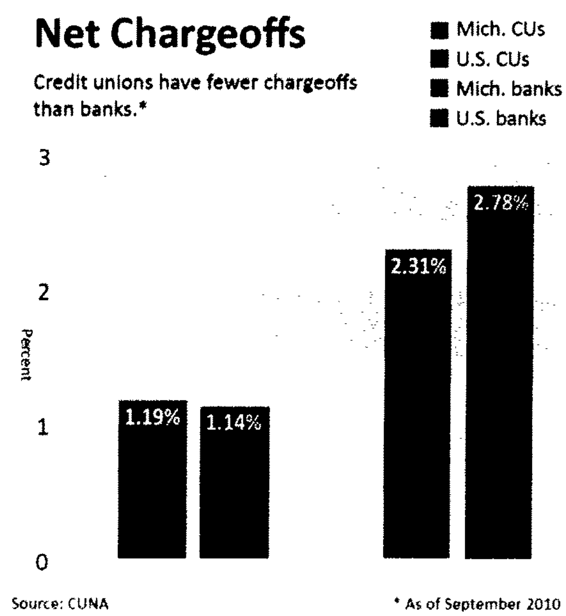
a full suite of consumer lending products, including: mortgage loans, auto loans, credit card loans, and even member small business loans.

During the most recent credit crisis, while other lenders were pulling back from lending, credit unions actually continued to lend. During 2009, when the captive finance companies owned by the domestic auto manufacturers were crippled and while national banks were reeling from the economic and financial crisis, credit unions new auto loans were expanding by 20-30 percent. In the case of Chyrsler, credit unions accounted for an unprecedented 40 percent of total financing volumes compared to a more typical 10-15 percent market share. The Michigan Credit Union

League & Affiliates launched its Invest in America program in 2009 and it continues today. This program enlists the help of over 2,700 credit unions nationwide to promote the concept of "buying American" while providing special discounts on GM, Sprint, and other "Made in America" products and services. During 2009 and 2010, the credit union Invest in America program helped generate over 500,000 vehicle sales for GM and Chrysler, most of them financed by credit unions.

Though credit unions hold less than five percent of total business loans in Michigan, they continue to focus on the growing capital needs of small businesses. While other lenders pulled back their capital and available credit in 2009 and 2010, credit unions experienced unprecedented demand for credit from their small business members. As a result, credit unions increased their lending to small business members by over 20 percent in both years. Despite this growth in member business lending, credit unions are among the safest depository institutions with some of the lowest delinquency and charge-off rates in the financial sector.





Michigan credit unions are helping their millions of members through these challenging economic times with access to credit, lower rates, and lower fees. Our not-for-profit cooperative structure drives products and services that benefit our members, not the bottom line. As Michigan looks to change the way it has done business in the past, the Michigan Credit Union League stands ready to collaborate and partner with the Snyder Administration and the state legislature to find ways to expand lending, provide more capital for small business and encourage increased financial responsibility so our economy can grow and create jobs.

Federal Issues: Debit Interchange Fees and Insurance Fund Premiums
As we look forward, we can't look at capital and lending in Michigan without acknowledging that most of it is provided by federally insured depository institutions. Banks and credit unions alike have been impacted by distressed economic conditions, leading to increased loan losses resulting from the housing crisis, increased volumes of foreclosure related losses, and challenges in making new loans that were previously accepted as properly underwritten due to new increased regulatory requirements placed on financial institutions.

While Michigan credit unions did not participate in the risky practices and products that led our state and country into this economic recession, they have become subject to the unprecedented amount of new federal regulations resulting from the crisis. The cost to comply with this historic amount of new and additional regulation has a significant effect on credit union's ability to provide increased credit and value to our members.

At a time when consumers were frustrated and angry at the abuses of Wall Street and the "too big to fail" institutions, the federal government enacted policy over the past two years that will significantly reduce important revenue streams at a time when profit margins are extremely thin. One example of this is the Debit Interchange Fee provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. A short provision introduced in amendment form by Senator Dick Durbin of Illinois was adopted on the Senate floor in the final hours of debate. Small card issuers like credit unions will individually experience thousands, in some cases millions of dollars of lost income as a result of this legislation that is currently being implemented by regulations issued by the Federal Reserve. In an effort to restrict what was perceived as abusive fees, Congress enacted this provision without fully understanding the complexity of costs associated with electronic commerce. Interchange fees received through debit transactions allow card issuers to cover their costs associated with electronic payments. If not fixed, this new law enacted in 2010 will force lenders to recoup costs associated with the payment networks in other ways, likely through increased fees on consumers. Some of the largest institutions in the U.S. have already done away with free checking accounts and programs resulting from this regulation. While this provision was never vetted through the committee process, our industry needs the assistance of our state leaders in asking the Federal Reserve and Congress to fix this poorly-thought-out legislation. This single provision aims to increase financial pressures on all depository institutions, further reducing their capital available to lend.

There are many other examples of recent federal regulation that has gone too far in the direction of presumably protecting consumers' interests while increasing financial pressure on depository institutions' ability to lend. While some consumer protection legislation was warranted as a result of abuses by less regulated mortgage brokers and certain Wall Street institutions, Congress went too far with a consumer protection agenda, and in my opinion, exacerbated the credit crisis as opposed to addressing it positively.

Aside from an overly burdensome federal legislative climate on regulated financial institutions, both banks and credit unions have also been dramatically impacted by the national economic climate that led to an increased number of institutional failures and losses that must be collectively borne by the federal deposit insurance systems. As a result, conservative federal regulators have increased deposit insurance premium assessments that have further crippled depository institutions' ability to lend. It would be helpful if the Michigan legislature would urge federal deposit insurers, in our case the National Credit Union Administration, to spread out the cost of shoring up the National Credit Union Share Insurance Fund over a longer period of time so that the cost of replenishing the fund could be further spread out, enabling more capital to flow to small businesses and consumers in the near term. Banks have a similar challenge with the FDIC, and perhaps one that is even more acute.

While this is not an exhaustive list, it helps to prove the point that recent federal legislation and the accompanying regulations along with overly conservative deposit insurance premiums are having a strangling effect on credit on Michigan institutions and those throughout the U.S. What can the Michigan legislature do about this federal government overreach? While your assistance and authority over these issues is limited, I can't give testimony about the credit union industry without mentioning these concerns and asking for your help with these issues as they will have a significant effect on available credit to Michigan consumers.

State Issues: Foreclosure Process Reform and Economic Development Initiatives
Shifting to state legislative issues, I will begin by stating that the actions by the state government have been far less negative over the past few years than those from the federal government. Several important financial service issues remain to be discussed at the state level. Two specific areas I will discuss briefly are Michigan's real estate foreclosure law and economic development initiatives increasing credit available to small businesses.

While many institutions continue to take a "cookie-cutter" approach to foreclosures, Michigan credit unions have led by example in our ability to work with members who are facing financial hardship. Michigan credit unions are strongly represented in the list of participating servicers in the "Help for the Hardest Hit" program, which provides special federal funding mortgage assistance to homeowners dealing with a qualifying hardship. Credit unions have also shown their willingness to partner with state government on programs that help consumers borrow, secure the dream of home ownership and afford important lifestyle needs such as a new automobile or a college education. Examples of this include our strong support for the MSHDA "Save the Dream" program that would have provided relief for distressed homeowners were it not for the meltdown of the private mortgage insurance industry as a result of the credit crisis. Despite our voluntary and pro-active participation in several of these initiatives and programs, the previous legislature repeatedly addressed the idea of limiting foreclosure filings by lenders.

Due to numerous "softening" compromises in the previous session, the 90-day foreclosure workout legislation was reasonably harmless to credit unions since they already go to great lengths to communicate with struggling borrowers. In revisiting this temporary 90-day extension, we believe there is an opportunity to work with the financial services industry in reforming Michigan's pro-debtor foreclosure law to help lenders more efficiently carry out necessary foreclosures. One specific example could include extending the 90-day foreclosure workout period for an additional year while shortening the redemption period on the backend. Michigan has one of the longest redemption periods in the nation. Furthermore, 25 other states do not even have a foreclosure redemption period. The length of Michigan's redemption period varies on specific criteria, ranging from 6 months to 1 year for occupied residential property, and 30 days to 3 months for abandoned property. Given that foreclosures remain at elevated levels in the marketplace, the MCUL could support reform that provides additional opportunities to help homeowners on the front end of the foreclosure process while also providing much-needed cost relief to lenders on the back end of the process. Michigan's overly burdensome foreclosure law is in need of reform. We urge members of this committee to consider striking a balance between homeowners' interests and the financial risks borne by depository institutions in this very challenging economic climate.

In addition to reforming Michigan's foreclosure process, the state legislature could also assist with strengthening Michigan's economic development programs. One such is the Capital Access Program (CAP), which successfully leverages economic development funds into small business loans through participating financial institutions. Unlike several other MEDC programs, CAP is geared towards all lenders and provides much needed risk mitigation for small business loans. At a time when the value of collateral held by businesses is at an all time low, state-endorsed risk mitigation programs can help stimulate increased lending by financial institutions. Both credit unions and banks have equal access to participate in the MEDC's CAP program. The MCUL continues to support efforts to increase funding to the Capital Access Program, and is willing to assist in the development of future loan guarantee programs.

Related to small business lending, more than 30 Michigan credit unions stepped up in 2010 and pledged increased access to $40 million in credit for small business and entrepreneur loans at the request of the Granholm Administration. The Governor showcased this commitment prominently in her last State of the State address. In only a few months, member credit unions from across the state partnered with 12 regional Small Business Technology Development Centers to increase access to credit for small businesses and entrepreneurs. This is just one example of how new private-public sector initiatives can strengthen our economy in the years to come. Governor Snyder's renewed focus on job creation, specifically efforts geared towards small business and local economic development, is refreshing. Community lenders such as credit unions will continue to play a critical role in these efforts going forward. The Michigan Credit Union League looks forward to working with the Michigan Bankers Association and other interested parties to help create an agenda that will strengthen our lenders without placing undue hardship on consumers.

Benefits of Increased Focus on Financial Education, Saving, and Accountability
There are three social areas I believe are extremely important to strengthening the financial sector, and those are: 1) Consumer Savings; 2) Financial Education; and 3) Rewarding Responsible Financial Behavior.

As a nation, we are not saving enough. As many financial institutions continue to reward consumers in the marketplace for increased spending, credit unions recognize the need for increased saving. In Michigan, we enacted a unique lottery law that allows prize raffles to be used to create incentives for saving in Michigan credit unions. Michigan CUs have launched a "Save to Win" program that in just two years has resulted in over 17,000 consumers saving over $25 million. The simple concept is to offer the chance for cash prizes for every $25 saved in an interest-bearing certificate of deposit. Consider the impact of a state-run program, in conjunction with financial institutions that would encourage a lottery-level program that results in billions of dollars of saving.

Credit unions are also leaders in providing financial education to their members, especially to their youth through several financial literacy programs. During the month of April, the MCUL also assists state lawmakers in participating in the MCUL's "Financial Literacy Legislative Challenge", where lawmakers are partnered up with local credit unions to teach financial education seminars and events throughout the state. We must work together to find additional ways for state government and financial institutions to partner in educating youth and adults alike on smart financial practices.

I encourage the committee to look for ways to increase rewards and incentives for good financial behavior. A huge risk to our economy is the approximately 40 percent of households who have negative equity in their homes. Certainly those who experience financial hardship due to lost employment or extraordinary medical expenses should be provided relief from certain obligations. However, a rising number of homeowners are being encouraged by fee-paid advisors to allow a so-called "strategic default". These consumers can afford to pay but walk away from their mortgage obligation, leaving lenders holding the debt. State and local governments could work with the financial industry to use tax policy in a manner that develops incentives for smart financial behavior and penalizes reckless/immoral behavior such as those demonstrated by "strategic defaults".

After living through two years of which President Obama characterized as the toughest two years since the Great Depression for America, we can all learn that we as a nation have become under-educated on basic finance, we've borrowed recklessly, and saved too little. After seeing trillions of dollars so well-intentioned thrown at presumed economic stimulus and special programs for those "hardest hit", I wonder if it is time for us to move toward a culture that encourages and rewards increased financial responsibility. Such policies would have tremendous long-term effect because once implemented, more people would honor their mortgage commitments, strive to save, work to improve their credit scores and eventually achieve financial literacy.

Thank you for the opportunity to address the committee on Michigan's credit union industry. I am optimistic about the prospects for an improving Michigan economy and confident that credit unions will continue to help their members in the months and years to come. Credit unions have stood out as the sector of the industry that has the structure and the heart to help people help themselves in extraordinary ways during these tough economic times. I will be happy to take any questions at this time.